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C O N F I D E N T I A L SECTION 01 OF 02 PRAGUE 000109

SIPDIS

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TAGS: EFIN ECON ETRD PREL EUN EZ

SUBJECT: CZECH FINANCE MINISTER KALOUSEK ON EU, G-20
SUMMITS; PANDUR ARMORED VEHICLE CONTRACT

Classified By: CHARGE MARY THOMPSON-JONES; REASONS
1.4 B AND D.

¶1. (C) Finance Minister Miroslav Kalousek stressed to Charge February 25 the importance of global coordination of financial market regulatory reform and noted the Czech Republic favored evolutionary rather than revolutionary changes. The February 22 informal G-5 meeting in Berlin had discussed strengthening the role of the IMF and agreeing to a common methodology for dealing with troubled assets. He did not expect any breakthroughs at the March 1 informal EU summit and noted that it was called to preempt French calls for a Eurozone leaders meeting. He noted that the March 19-20 Spring EU Council and the April 2 G-20 summit would be much more important and failure to reach an agreement there would send a very bad signal to the markets. A key issue for the EU will be tackling tax havens. He was not sure how the proposal to require rating agencies to be located in the EU would turn out. While the Czech Republic was uncomfortable with this measure, the Czech presidency's role was not to push its own agenda but to coordinate a common position. He noted that while he had issues with the MOD's decision to purchase armored vehicles from General Dynamics/Steyr, he would not block the signing of a new contract. End Summary.

G-5 Meeting In Berlin: Troubled Assets; Role of IMF

¶2. (C) Kalousek reported that the Czechs had insisted that the informal G-20 preparatory meeting of G-5 states in Berlin on February 22 not produce any formal conclusions, since 20 of the 27 EU countries were absent. The first part of the meeting discussed preparing a common EU position for the April 2 G-20 meeting in London and focused mainly on strengthening the role of the IMF. Kalousek noted his concern that Latvia and Hungary may not be the last EU countries to need IMF support. The second half of the meeting discussed the development of a common EU approach to dealing with troubled assets.

March 1 Extraordinary EU Summit: No Breakthroughs Expected

¶3. (C) Kalousek joked that the goal of the March 1 informal EU summit was to remind the French that they were no longer in the EU presidency. The Czechs called the meeting to preempt Sarkozy's calls for a Eurozone summit, which would have excluded many EU members, including the Czechs. Sarkozy was pushing for an agreement by March 1 on bad assets, something Kalousek said was making fellow Finance Ministers want to hang themselves, as the details of such a complex issue could not possibly be worked out until at least the end of March. Kalousek reported that in the speech he was preparing for PM Topolanek, he was urging the leaders to first reach agreement on a general set of principles. Kalousek noted Sarkozy's love for summits. He cautioned, however, that summits create expectations, and if not well prepared in advance, can cause more harm than good as markets

react negatively when it appears leaders cannot agree.

Spring European Council and April G-20 Summit: Critical to Reach Agreement

¶4. (C) Kalousek said he did not expect any significant breakthroughs at the March 1 informal EU Summit, adding that he would be happy if it did not do any harm. He noted that the March 19-20 EU Summit and the April 2 London G-20 Summit would be much more important and stressed that it was critical that the summits announce some kind of agreement as the markets would be watching. An agreement would be an important signal that the G-20 is taking the economic crisis seriously. A key issue for the EU, and especially Germany and the UK, would be tackling tax havens. The March 10 ECOFIN will discuss draft conclusions for the Spring European Council, including on the key issues of troubled assets, joint approach to regulation and supervision, and a joint EU position for the G-20.

¶5. (C) Charge noted our concerns over several proposed EU measures, such as on credit rating agencies and geographic mandates for clearing credit derivatives, that appear to be creating barriers to investment. Kalousek reported that he shared our concerns on the credit rating agency issue but was not sure how this issue would play out. As the EU Presidency country, however, it was the Czech's responsibility to be an honest broker among the 27 EU members and not promote Czech positions. He stressed, however, that financial regulation and oversight was a global issue and closer international coordination was critical.

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Kalousek will not Block Pandur Contract

¶6. (C) Charge also raised the importance of the Czech government meeting its commitment to General Dynamics/Steyr and concluding a revised contract for the purchase of 107 Pandur armored personnel carriers. Kalousek reported that he thought the money could be better spent on other projects. He was also concerned that the technical requirements for the vehicles were based on outdated needs. Nevertheless, Prime Minister Topolanek very much wanted to conclude the new contract and thus he (Kalousek) would not stand in the way. He noted that there was a minor problem with the required prepayment, which exceeded what was allowed under Czech law, but thought this issue could be resolved.

Comment

¶7. (C) In public fora, Kalousek has consistently stressed the need for global (and not just EU) coordination and warned against protectionism. He is also known as a strong fiscal conservative and has repeatedly raised concerns about excessive government spending in response to the economic crisis. He has also cautioned that it is critical to get new regulation right and that governments should not be in a rush as regulation for regulation's sake could cause many unexpected problems. While supporting the need for better coordination among national regulators, the Czechs have consistently opposed the introduction of pan-European regulatory bodies. The Czechs, however, see the EU's response to the crisis as a key test of their EU presidency. Thus they have subsumed their national positions to the greater goal of coordinating a joint EU position/response. The often out-spoken Kalousek told Charge that he had promised PM Topolanek that he would not promote his own positions within EU fora but work toward forging consensus. Thompson-Jones